

Building a Private Real Estate Market:
The USAID-NAR Partnership in the Former Communist Bloc

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Thank you Peter Kimm. Thanks, Peter, for your introduction but, more important, thanks for creating the housing sector portfolio in USAID, the world's largest aid agency. You personify the best in public service -- creativity, entrepreneurship, and, most important, honesty. And congratulations for your awards here today and from the UN Habitat organization, which recognize your unparalleled contribution to the sector over the past 30 years.

And it is indeed an honor to be on the same platform with President Oscar Arias -- a statesman who has lived and worked at advancing democracy, economic development and peaceful reconciliation.

My deepest appreciation to the NAR International Committee and the Eastern European Real Property Foundation for inviting me to speak at this event. The National Association of Realtors is one of USAID's key partners in development. I have lived and worked in our nation's capital for over 30 years now. I have been first-hand witness to the Realtors in action. I unhesitatingly say that your reputation as a powerhouse is deserved. Your membership is represented at every stage of the policy process. Housing policy, and that includes policy in related areas like tax issues, can only be made with your views being taken into account. And rightly so. Because you know what you are talking about, and because you have your troops behind you in 435 Congressional Districts. I am glad that, on the issues I work on, we are on the same side. No one that I know wants to be on the side opposing the Realtors.

There is no U.S. private sector organization that has moved faster or more effectively in recognizing the historic opportunity, and challenge, posed by the collapse of Communism and the liberation of those nations and people, in Eastern Europe and in the former Soviet Union, who had suffered under its deadly grip.

From the fall of The Wall and then Gorbachev's resignation, you have brought a message about the importance of private property to people and economies which, over decades, had lost through atrophy most of their understanding of what private property is.

It's been 20 years since the first UN conference on housing and urbanization in Vancouver and, during that time, you have been at the forefront of those who strived successfully to change the thinking of world leaders about housing, and especially housing for the very poor. That issue has now moved from the sidelines, where it was 20 years ago, to front and center where it should be. You organized three International Shelter Symposiums in the late 1980s, each a significant forum for setting out fundamental policy objectives for healthy housing sectors. This past year you were an active presence, working closely with USAID, at the Second United Nations World Conference on Habitat in Istanbul.

At Vancouver, the prescription was for *governments* to build and manage housing for the poor. Today that tired prescription has been replaced by "enabling strategies" -- strategies that urge governments to facilitate *private* sector efforts to assure adequate shelter and healthy living environments for all. This is a sea change in the thinking of the world community. NAR can be proud to have been a leader in this debate, and we at USAID are proud to have had NAR allied with us in the battle to better the standard of living of the world's poor.

As the countries of Eastern Europe and the former Soviet Union embarked on their massive economic, political and social transformations only a few short years ago, it was immediately evident that, in this highly industrialized region, housing and urban development issues would have to be high on the reform agenda. The state had monopolized the entire housing delivery system: from design, construction, and financing all the way through allocation and maintenance. Anyone who has visited the cities and the industrial "new towns" of the region has seen the rather colossal failure of state monopolization. Block after tedious block, mile after mile, of enormous, bleak apartment buildings! Nothing was built to the human scale; there was little variation to accommodate individual tastes or needs; architectural beauty was rejected.

USAID's efforts have specifically focused on helping to create a private sector in 27 former Communist places and to create the enabling environment the

housing sector so desperately needs. NAR also saw the need and recognized that associations such as yours are a crucial element in the enabling and market-facilitating environment.

NAR undertook to create the Eastern European Real Property Foundation. USAID supported EERPF's efforts to help develop private sector, market-oriented real estate associations throughout the region.

Over the years, EERPF has worked in eight countries, assisting 30 associations and 25,000 real estate professionals. It nurtured the creation of the Central European Real Estate Associations Network, known as CEREAN, to give the movement indigenous support and sustainability. The maturity of CEREAN was evident just last month when 450 real estate professionals from across the region attended its third annual conference in Budapest, almost all the participants paying their own way. NAR has reached new heights in its relationships with its European partners. We are here today to celebrate the success of the NAR and the NAR-USAID partnership in Eastern Europe and the former Soviet Union.

Urban real estate development, especially housing itself, touches on matters of social stability and local governance. It is integrally related to financial markets and the creation of wealth. Just in terms of its contribution to the economy, housing cannot be ignored in the effort to reform:

- Not when the housing stock can account for a fifth or more of a nation's reproducible wealth;
- Not when housing investment may represent over a quarter of all investment; and
- Not when 10 or 15% of a country's labor force may be employed in housing construction and maintenance.

We at USAID chose housing sector reform as one of our first technical assistance efforts in the region. A housing and urban development sector driven by the principles of the free market and responding to consumer demands was required to harness the enormous potential for stimulating the economy. Over the past five years, our support for housing sector reform has concentrated on five broad areas. Allow me to give you a brief sense of what we have tried to do and what we believe are our considerable accomplishments over a relatively short

period of time throughout the region. I hope this doesn't sound too much like I'm patting USAID and the NAR on the back, but first as taxpayers, then as NAR members, and as people who care, you need to know when a program is truly successful.

The most important aspect of this success is the foundation we have built for a sustainable private housing market. Our training programs build human capacity, while our technical assistance is helping to develop a solid legal framework and sustainable institutions. Success is not measured by what we put into the process, but by what comes out the other side. Over the past few years, all of the countries with which USAID has worked have moved further from a centrally managed housing sector and closer to a truly private market. In Russia alone, 38 new laws have recast the ground rules for housing. They have laid the basis for a housing finance system and enabled the conversion of vast amounts of multi-family real estate from public to private ownership. Hungary has adopted a progressive new housing policy that encourages private production. That is the enabling environment I was talking about. Without it, any efforts toward private housing markets would disappear.

Our second broad thrust is toward private home ownership, until recently a virtually unknown phenomenon in most countries of the region. Ownership is rapidly becoming the central core of a property-owning middle class. Just as it does in America and in democracies around the world, home ownership serves as a stabilizing political and economic force in the society. It carries the additional promise of creating a capital base for burgeoning small entrepreneurs.

How have we done here? More than 10 million state-owned units in Russia, for example, have been privatized; across the country, over half the housing stock is now privately owned. Throughout all of Eastern Europe and the Former Soviet Union, we have supported the formation of condominiums, to help families achieve ownership and to relieve cities of an insupportable financial burden. We have also been assisting these countries to privatize the maintenance of multifamily apartments. Responsibilities that were poorly executed, if at all, by agencies of the municipal government are now increasingly being undertaken by private companies. Using Russia as an example again, more than 100,000 units are now under private maintenance contracts with 80 private firms. Through this process, we have contributed to the creation of thousands of new jobs.

Our third area of focus is to encourage the reduction in public subsidies that go into housing. At the same time we have helped develop targeted and efficient housing allowance systems to assist vulnerable groups, especially the elderly, who are unable to afford higher rents. Hungary, Poland, Russia, and Ukraine all have such systems in place. We hope Slovakia will be added to this list soon. Nothing will be achieved if we encourage the elimination of subsidies without taking care to ensure that we are not producing homelessness and poverty in its stead.

Our fourth focus is on land itself. In societies in which land was owned by the state or its instruments, reform has not been easy, but it has been widespread. We are especially proud of the progress we have made in helping countries privatize urban land. Many cities now have new, computer-based real estate information systems, so essential to smooth land transactions and an effective tax system. Many cities have engaged in private land auctions to stimulate development. And we have assisted in property tax reform to help cities build a reliable and fair revenue base. These are the key ingredients to a smoothly flowing land market, which is the cornerstone of effective urban development.

Finally, we are targeting the cornerstone of a private housing system -- finance. The United States has a great comparative advantage in this field. We introduced the Federal Housing Administration in the 1930s to standardize and popularize the self-amortizing mortgage through a nation-wide insurance program. We soon buttressed that by creating the Federal National Mortgage Association. Fannie Mae was designed to support the trading of mortgages on the secondary market and attract more funds into housing through a national, and today international, financial network. Just as those innovations helped us out of the Great Depression, these economies in transition need similar innovation to hoist themselves out of the doldrums of the old command economy.

We have played from our strength by working with countries to develop the legal instruments and institutions required for the housing and municipal finance systems. As in all of our efforts, we have had important partners. Here I would point out for special mention Fannie Mae itself, which is helping us to export a truly American "social technology."

We are cooperating with government ministries and banks to establish programs for commercial financing and market-based mortgage lending. We

helped establish the Russian Mortgage Lending Agency, which will regulate the secondary mortgage market. And we have assisted in designing mortgage instruments specifically suited to high inflation economies. In Hungary, 6,000 families who would not otherwise have found housing financing have benefitted from innovative mortgages; in Poland, more than 3,000 new homeowners have benefitted. And in Russia, a dozen commercial banks have already issued 3,500 mortgages to the general public. These are relatively small numbers. But they are an important indication that overcoming an enormous historical, psychological barrier has commenced. The public is beginning to accept a new way of thinking about how to pay for housing.

I have mentioned the importance of our American development partners. Our expectation is that they and others will remain long after USAID is gone from the region. We are helping to pave the way, but it will be the American private sector that will carry on, in active, profitable partnership with their counterparts. When these economies are in full swing, the opportunities will be virtually limitless. There are countless possibilities for introducing American building technologies and establishing business-based technology exchanges. Our counterparts are eager to learn construction and financial management techniques from American firms.

NAR has been a key partner. You have taken the lead to demonstrate how private markets operate and the important role that the broker plays in a market as complex as housing and other real estate. You have made great strides toward establishing the acceptability of the broker's role, removing the stigma that was often associated with it in the Communist economies. And now you have reached the milestone in which NAR has entered into private, bilateral cooperation agreements with your sister organizations in Europe. I want especially to congratulate the associations of Bulgaria, Czech Republic, Hungary, Poland, and Russia. Each of you, with assistance from EERPF, has reached a new plateau. Your new agreements are a realization of one of our pre-eminent goals: true partnerships between the new private sectors in Eastern Europe and the former Soviet Union and the private sector of the United States.

At USAID we talk a lot about sustainability, about what will happen when USAID itself is no longer operating in a particular region or country. In your partnerships with your counterparts in the region, you are showing us that housing

sector privatization will continue, that we helped facilitate not just the enabling environment for reform but the partnerships that will keep the momentum going. This is gratifying indeed. Keep it up National Association of Realtors, and take pride, as I do, in work that is good for the economies of eastern Europe and the former Soviet Union, good for the now-free people of the region, good for American economic and political security broad, and, last but not least, good for your business.

Thank you.